

House Education Committee
Testimony of Russ Bellant on HB 4306
March 2, 2011

Mr. Chair and members of the House Education Committee. I speak in opposition today to HB 4306 for the following reasons:

- The bill continues a pattern of the State of Michigan injecting itself into the decisions that local school boards have had the freedom to act on for decades. Our school districts have effectively had market-based choices for years, choices that some seek to now restrict.
- By limiting the choices of school districts, you are driving up the costs to every school district in Michigan because a competitive option will no longer be available. Following standard supply and demand practices, vendors know that they can charge more because they know competition is reduced as a result of this bill. In rural and remote districts where few vendors may choose to operate, competition in practice could be minimal and thus more expensive. Even districts that currently outsource will lose the leverage that returning work in-house can bring to negotiate a fairer deal for their school system.
- This bill does not appear to be written based on any objective study that has proven that universal benefits will materialize for school districts from mandated outsourcing. Indeed, the most telling reality is that, given choices, most school districts have found it advantageous to keep services in-house.

Now the legislature seeks to impose a blanket judgment, condemning these thousands of local decisions made over the years that were concluded based on what they judged best for their district. Instead the sponsors of this bill will burden all school districts with their own judgment that saps local decision making and makes those districts pay the price to boot.

Before this Committee forges ahead with such an ill-founded, unfunded mandate, it ought to research the decisions that districts have made to end outsourcing and examine the real world limitations of this practice. You should ask why Plymouth-Canton schools ended over a dozen years of outsourcing of food service several years ago. Or why Mt. Clemens ended transportation outsourcing with First Student, Inc. last year.

As a parent volunteer I was active over a three year period in bringing food service reform to Detroit Public Schools. During the first state takeover of DPS, Aramark was brought in to run food services beginning in school year 2001-2002. Although by 2006 we were concerned about lowered food service quality under outsourcing, we focused on the financial impact on our district of in-house vs. outsourced operations and found the following:

- In the last year of self operation, 2000-2001, the food service remitted to the general fund \$4,578,791, according to the Comprehensive Annual Financial Report (CAFR) written by outside auditors. This indirect cost recovery is allowable under federal school food grant rules and in effect reimburses the district for its costs for providing the food program – costs related to space, utilities, etc.

I would like to now direct you to the appendix where a table summarizes the financial data for the food service program from fiscal year 2001 – the last year of self-operation- to fiscal year 2006, showing five years of outsourced operation.

You will see that in the first year of outsourced operation, in FY 2002, that food service went from a nearly \$5 million positive showing under self operation to a negative \$566,715 in overspending. Further, you will see at the bottom of the table that the District transferred in \$2,394,923 from the general fund to cover contingencies, transferring back out over \$1.8 million once the deficit was covered, thus achieving a zero fund balance at the expense of the general fund. Aramark fees that year were nearly \$2.4 million. Remember, this was all under the state takeover when the State of Michigan was supposed to be conducting direct oversight of the District.

In 2004 the contractor ran a loss of over \$2.4 million, shown on the revenue/expenses line. Only a \$3.1 million infusion of cash reported under "Note proceeds" allows the positive fund balance at the end of the year.

Even with this bleak fiscal performance, it was discovered that Aramark was not returning funds to the District that they were legally required to remit. When any District vendor obtains national bulk food purchase discounts, those savings, by federal rules, are to be passed to the school district to enhance its food program. Aramark failed to do so and neither the Michigan Department of Education nor the state oversight function enforced this requirement.

If the five years of Aramark returns are summed up minus the general fund cash infusions, the records show a total of about \$1.4 million surplus in five years, about 30% of what food service earned in just one year of self operation. Stated another way, self operation earned at a rate 16 times higher than the contractor. But Aramark took \$14,802,472 in fees. Compare that to the \$1.4 million they allowed DPS to have.

Aramark still managed to spend lavishly while at DPS, hiring the Clark Hill law firm to lobby for its contract renewals, paying for golf outings, tickets to sporting events, campaign donations, hiring a PR firm and placing ads in publications of groups they sought as allies in their attempt to influence the public.

Many of these expenditures were discovered from an internal Aramark document that was not intended for public consumption. Which goes to another point about mandatory outsourcing. These vendors are not subject to Freedom of Information Act requests and hundreds of millions of dollars that flow to them cannot be fully accounted for. All you can get is the contract and the payment schedule to the vendor.

One other quick story. When Robert Bobb brought First Student in to run the transportation at DPS, we had children whose pickup was missed daily for over a month. The day they got it right was on student count day. After then it went back to hit and miss. Their shoddy bus maintenance record per the Michigan State Police should disqualify them from driving anyone's children. MSP Inspectors found in 2009 that 20.2% of First Student buses in nine districts in Michigan had safety deficiencies. Imagine the hometown news story if harm comes to any child from one of these fly by night bus operators, as we experienced with a fatality in Detroit last year.

The three major outsourcing companies at DPS are headquartered in the United Kingdom, Norway and France. Forget Buy Michigan, we are not even doing business with American companies. With in-house, it all stays local.

In conclusion, I urge you to not support this ill-conceived mandate that ignores the reality of how real damage has occurred, how bus safety critical to our children can be compromised and the finances of our districts irreparably harmed *in perpetuity* by this bill. Let local authorities decide what is best locally for themselves.

APPENDIX

Detroit Public Schools Financial Performance Comparison From Self Operation vs. Contractor (Aramark)

	Self-Op	Aramark	Aramark	Aramark	Aramark	Aramark
<u>Revenue:</u>	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Local Sources	3,345,630	4,018,620	7,755,327	4,883,122	7,135,839	7,045,785
State Sources	2,210,348	1,974,658	2,802,238	5,988,856	3,146,437	4,569,904
Federal Sources	3,654,854	38,325,616	36,938,275	39,556,045	40,253,900	34,515,815
TOTAL REVENUE	39,210,832	44,318,894	47,495,840	50,428,023	50,536,176	46,131,504

Expenditures:

Salaries	12,863,508	12,488,039	12,394,559	13,320,851	11,926,740	10,863,734
Benefits	3,985,094	4,148,523	5,091,739	5,328,554	5,596,562	6,083,123
Aramark Labor Cost	N/A	1,021,577	1,220,729	1,722,358	2,068,637	2,132,925
Aramark Admin Fees	N/A	943,965	895,161	926,457	778,727	899,610
Aramark Mgmt Fees	N/A	406,974	449,780	440,135	472,047	428,390
Food & Services	17,591,568	23,341,721	23,478,999	24,720,638	22,017,696	1,137,459
Supplies	-0-	1,464,351	3,029,440	2,742,962	2,766,568	2,273,895
District Other	-0-	70,232	-0-	52,120	1,344	-0-
TOTAL EXPENSES	39,210,832	44,885,645	46,560,407	49,752,778	45,628,317	43,114,323

Revenues Over/ (Under) Expenses

<u>After Outlays, Debt</u>	4,578,691	(566,751)	935,213	(2,424,760)	2,466,246	1,017,181
Note Proceeds				3,100,005		
Capital Outlay	191,871	1,000,263	220	449,297	1,754,719	608,293
Debt Service				49,406	686,894	686,894
Transfers In	-0-	2,394,923				
Transfers Out	4,578,691)	(1,828,172)	(935,213)			
Fund balance	-0-	-0-	-0-	675,245	2,466,246	1,017,181

NOTE: Aramark Fees Total \$2,372,516 2,565,670 3,088,950 3,319,411 3,460,925

Sources: Comprehensive Annual Financial Reports, 2002-2006; Annual MDE SM 412A reports, 2001-2006

MICHIGAN STATE POLICE SCHOOL BUS INSPECTION REPORTS

First Student Transportation Inspections 2009

School District	Total Buses	Passed Inspection	Red-Failed	Yellow-Restricted	Deficient Buses
Harris	32	31	1	0	1/3.1%
Lenawee	31	27	3	1	4/12.9%
Linden	43	37	5	1	6/14.0%
Montague	15	15	0	0	0
Mt. Clemens	37	27	9	1	10/27.0%
Niles	39	28	5	6	11/28.2%
Pinckney	36	33	3	0	3/8.3%
Pontiac	73	44	22	7	29/39.7%
First Student (no district)	20	18	2	0	2/10.0%
First Student-MI TOTALS	326	260	50	16	66/20.2%

Safeway Inspections 2009

Safeway- Detroit	75	74	1	0	1 /1.3%
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First Student Transportation Inspections 2008

School District	Total Buses	Passed Inspection	Red-Failed	Yellow-Restricted	Deficient Buses
Lenawee	27	27	0	0	0
Mt. Clemens	19	16	3	0	3/15.8%
Niles	36	25	8	3	11/30.6%
First Student (no district)	72	66	5	1	6/8.3%
First Student-MI TOTALS	154	134	16	4	20/13.0%

Safeway Inspections 2008

Safeway - Detroit	83	83	0	0	0
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First Student Transportation Inspections 2007

School District	Total Buses	Passed Inspection	Red-Failed	Yellow - Restricted	Deficient Buses
Tecumseh	37	36	1	0	1/2.7%
First Student (no district)	121	99	19	3	22/18.2%
First Student-MI TOTALS	158	135	20	3	23/14.6%

Safeway Inspections 2007

Safeway - Detroit	88	88	0	0	0
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